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**THIRD CANADIAN GENERAL INVESTMENT
TRUST LIMITED**

1977

Annual Report

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**THIRD CANADIAN GENERAL INVESTMENT TRUST
LIMITED**

*Board of Directors*_____

ALEX E. BARRON	T. R. MEIGHEN, Q.C.
D. L. CAMPBELL	E. LOUISE MORGAN
A. BRUCE MATTHEWS, C.B.E., D.S.O.	JOHN C. RYKERT
M. C. G. MEIGHEN, O.B.E.	PATRICK O. G. WRIGHT

*Officers*_____

M. C. G. MEIGHEN, O.B.E.	- - - - -	<i>Chairman of the Board</i>
ALEX E. BARRON	- - - - -	<i>President</i>
JOHN C. RYKERT	- - - - -	<i>Treasurer</i>
E. LOUISE MORGAN	- - - - -	<i>Secretary</i>
PATRICK O. G. WRIGHT	- - - - -	<i>Assistant Treasurer</i>

*Auditors*_____

PRICE WATERHOUSE & CO. - - - - - Toronto

*Registrar and Transfer Agent*_____

THE CANADA TRUST COMPANY** - - - - - Toronto and Montreal

*Office of Company*_____

110 YONGE STREET, SUITE 1702, M5C 1T4 (Telephone 416-366-2931) Toronto

THIRD CANADIAN GENERAL INVESTMENT TRUST LIMITED

To The Shareholders:

Your Directors have pleasure in submitting the Annual Report of your Company for the year ended December 31, 1977 consisting of the Balance Sheet and Statements of Income, Retained Earnings, Unrealized Gain on Investments and Changes in Net Assets.

The Balance Sheet discloses that the total assets of the Company as at December 31, 1977 amounted to \$34,403,112. From this amount is deducted the total liabilities of the Company, namely, \$2,365,665, which leaves a net value of \$32,037,447. After deducting the First Preferred Shares at the call price of \$52.50, namely, \$2,795,677, each of the 1,837,190 Common Shares outstanding as at December 31, 1977 had an apparent liquidating value of approximately \$15.92. It should be noted that while \$2.3 million in deferred income taxes was deducted from total assets in calculating the equity value per share, the \$2.3 million continues to work for the benefit of the shareholders. Such will be the case until future realization of capital gains necessitates payment to the government of part or all of these deferred taxes.

The Statement of Income discloses that your Company, after paying all expenses, had a net income for the year of \$1,836,269. After providing \$134,136 for dividends on the First Preferred Shares, the balance of net income, namely, \$1,702,133 is equivalent to \$0.93 for each of the outstanding Common Shares.

During 1977 cash dividends totalling \$134,136 were paid or declared on the First Preferred Shares. The Common Shareholders received dividends of \$1,690,215 or \$0.92 per share, an increase of \$0.07, the maximum allowable under the regulations of the Anti-Inflation Act. These dividends were paid out of the Company's 1971 Surplus Accounts and are not subject to income tax in the hands of the shareholders. Such dividends, however, do reduce the adjusted cost base of your shares and this in turn could affect the taxable capital gain or loss resulting from any future sale of such shares.

A schedule showing the percentage of the dividends paid out of Tax-paid Undistributed Surplus On Hand and 1971 Capital Surplus On Hand is set out below. This information is submitted for the benefit of Canadian corporations which are shareholders of the Company.

THIRD CANADIAN GENERAL

Balance Sheet

Assets

	December 31	
	1977	1976
Investments at indicated market value (Note 1)		
Securities having a quoted market value - - - - -	\$32,821,438	\$33,230,839
Securities not having a quoted market value - - - - -	1,463,139	1,341,882
	<u>34,284,577</u>	<u>34,572,721</u>
(Cost as at—		
December 31, 1977—\$15,883,663		
December 31, 1976—\$15,357,273)		
Short-term investments, at cost plus accrued interest		
(including in 1976 \$337,930 in U.S. funds) - - - - -	100,298	458,100
Dividends receivable - - - - -	1,257	10,064
Cash - - - - -	16,980	3,785
	<u>\$34,403,112</u>	<u>\$35,044,670</u>

Liabilities and Shareholders' Equity

Accrued liability - - - - -	\$ 1,600	\$ 800
Dividends payable - - - - -	36,065	37,070
Deferred income taxes (Note 4(ii)) - - - - -	2,328,000	2,018,000
Shareholders' equity		
Capital stock (Note 2)		
Authorized—		
118,477 first preferred shares of the par value of \$50 each, issuable in series		
52,628,930 3% non-cumulative second preferred shares of the par value of 5¢		
each redeemable at the amount paid up thereon		
2,000,000 common shares of no par value		
Issued and outstanding—		
53,251 (1976—54,235) \$2.50 cumulative first preferred shares Series 'A'		
redeemable at \$52.50 per share - - - - -	2,662,550	2,711,750
1,837,190 common shares - - - - -	9,185,950	9,185,950
	<u>11,848,500</u>	<u>11,897,700</u>
Contributed surplus, realized on purchase for cancellation of first preferred shares		
(including \$20,791 arising during the year ended December 31, 1977) - - - - -	114,243	93,452
Unrealized gain on investments - - - - -	16,072,914	17,197,448
Retained earnings, including \$261,300 (1976—\$212,100) appropriated under Section		
62 of the Canada Corporations Act - - - - -	4,001,790	3,800,200
	<u>32,037,447</u>	<u>32,988,800</u>
	<u>\$34,403,112</u>	<u>\$35,044,670</u>

APPROVED BY THE BOARD:

A. BRUCE MATTHEWS, *Director*

M. C. G. MEIGHEN, *Director*

Auditors' Report to the Shareholders of

Third Canadian General Investment Trust Limited:

We have examined the balance sheet of Third Canadian General Investment Trust Limited as at December 31, 1977 and the statements of income, retained earnings, unrealized gain on investments and changes in net assets for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Company as at December 31, 1977 and the results of its operations and the changes in its net assets for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

As part of our tests referred to in the first paragraph above, we examined share certificates and other evidence supporting the investments held by the Company as at December 31, 1977.

TORONTO, January 16, 1978

PRICE WATERHOUSE & CO.
Chartered Accountants

INVESTMENT TRUST LIMITED

Statement of Income

	Year ended December 31	
	1977	1976
Income		
Dividends - - - - -	\$ 1,907,965	\$ 1,818,365
Interest - - - - -	18,982	13,433
Gain on foreign exchange - - - - -	14,012	11,600
	<u>1,940,959</u>	<u>1,843,398</u>
Expense		
Management fees - - - - -	82,470	86,978
Directors' fees (Note 3) - - - - -	1,200	1,250
Miscellaneous - - - - -	21,020	16,302
	<u>104,690</u>	<u>104,530</u>
Net income for the year - - - - -	\$ 1,836,269	\$ 1,738,868
Net income for the year per common share (after deducting preferred dividends) -	<u>\$ 0.93</u>	<u>\$ 0.87</u>

THIRD CANADIAN GENERAL

Statement of Retained Earnings

		Year ended December 31	
		1977	1976
Balance at beginning of year	- - - - -	\$ 3,800,200	\$ 2,920,688
Add			
Net income for the year	- - - - -	1,836,269	1,738,868
Gain on investments sold or redeemed (Note 4(iv))	- - - - -	189,672	838,690
		<u>5,826,141</u>	<u>5,498,246</u>
Less			
Dividends paid or declared—			
On first preferred shares	- - - - -	134,136	136,434
On common shares	- - - - -	1,690,215	1,561,612
		<u>1,824,351</u>	<u>1,698,046</u>
Balance at end of year	- - - - -	<u>\$ 4,001,790</u>	<u>\$ 3,800,200</u>
Dividends paid or declared per share			
Preferred	- - - - -	<u>\$ 2.50</u>	<u>\$ 2.50</u>
Common	- - - - -	<u>\$ 0.92</u>	<u>\$ 0.85</u>

Statement of Unrealized Gain on Investments

		Year ended December 31	
		1977	1976
Increase (decrease) during the year	- - - - -	\$ (814,534)	\$ (2,758,729)
Deferred income taxes	- - - - -	(310,000)	103,000
		<u>(1,124,534)</u>	<u>(2,655,729)</u>
Balance at beginning of year	- - - - -	17,197,448	19,853,177
Balance at end of year	- - - - -	<u>\$16,072,914</u>	<u>\$17,197,448</u>

INVESTMENT TRUST LIMITED

Statement of Changes in Net Assets

	Year ended December 31	
	1977	1976
Net assets at beginning of year - - - - -	\$32,988,800	\$34,791,592
Add		
Net income for the year - - - - -	1,836,269	1,738,868
Gain on investments sold or redeemed - - - - -	189,672	838,690
Gain on purchase for cancellation of first preferred shares - - - - -	20,791	22,175
	<u>35,035,532</u>	<u>37,391,325</u>
Less		
Decrease in unrealized gain on investments - - - - -	1,124,534	2,655,729
Dividends paid or declared—		
On first preferred shares - - - - -	134,136	136,434
On common shares - - - - -	1,690,215	1,561,612
First preferred shares purchased for cancellation - - - - -	49,200	48,750
	<u>2,998,085</u>	<u>4,402,525</u>
Net assets at end of year - - - - -	<u><u>\$32,037,447</u></u>	<u><u>\$32,988,800</u></u>
Gain on investments sold or redeemed		
Cost of investments at beginning of year - - - - -	\$15,357,273	\$14,925,316
Add purchase of investments during year - - - - -	748,032	916,385
	<u>16,105,305</u>	<u>15,841,701</u>
Less cost of investments at end of year - - - - -	15,883,663	15,357,273
Cost of investments sold or redeemed during year - - - - -	221,642	484,428
Proceeds from sale or redemption of investments during year - - - - -	411,314	1,323,118
Gain on investments sold or redeemed - - - - -	<u>\$ 189,672</u>	<u>\$ 838,690</u>
Apparent liquidating value per common share (after deducting outstanding preferred shares at call price)		
At beginning of year - - - - -	<u>\$ 16.41</u>	<u>\$ 17.36</u>
At end of year - - - - -	<u>\$ 15.92</u>	<u>\$ 16.41</u>

THIRD CANADIAN GENERAL INVESTMENT TRUST LIMITED

Notes to Financial Statements

DECEMBER 31, 1977

1. The indicated market values of quoted securities are the result of pricing the Company's holdings at the closing quoted market prices as at December 31. Such amounts do not necessarily represent the value of the total holdings in any company which may be more or less than that indicated by market quotations. Securities not having a quoted market value have been included at values determined by the directors based principally on the underlying value of the assets represented by these securities.
2. During the year ended December 31, 1977, 984 \$2.50 cumulative first preferred shares Series 'A' were purchased for cancellation for an aggregate cash consideration of \$28,409.
3. The aggregate remuneration of three of the eight directors was \$1,200 (1976—\$1,250). The remaining five directors, who are also the five officers of the Company, are employees of the management company and did not receive any remuneration as directors or officers of Third Canadian General Investment Trust Limited.

4. Taxation:

- (i) The Company does not qualify as an "investment corporation" as defined in Section 130 of the Canadian Income Tax Act; accordingly, it is subject to income tax as a "public corporation". "Taxable dividends" received from "taxable Canadian corporations", as defined by the Act, are excluded from taxable income; one-half of gains on disposal of investments, to the extent that these have accrued since December 31, 1971, are subject to income tax at full corporate rates.
- (ii) Unrealized gain on investments includes approximately \$2,255,000 which has accrued since December 31, 1971. In addition, the Company has received dividends of approximately \$7,073,000 since December 31, 1971 which were paid out of "tax-paid undistributed surplus on hand" and "1971 capital surplus on hand" of the payor corporations and, therefore, must be applied to reduce the adjusted cost base of the investments in the payor corporations resulting in a corresponding increase in the gain which may ultimately be realized on these investments. Provision for deferred income taxes on these unrealized gains has been made in the accounts.
- (iii) As at December 31, 1977, the Company estimates its tax surplus categories, as defined by the Income Tax Act and subject to confirmation by the Canadian tax authorities, to be as follows:

	(a) Tax-paid undistributed surplus on hand (Section 89(1)(k))	(b) 1971 capital surplus on hand
Balance at beginning of year - - - - -	\$ —	\$ 2,817,000
Dividends received - - - - -	5,000	1,405,000
Tax-deferred dividends paid on common shares - - - - -	(5,000)	(1,685,000)
Balance at end of year - - - - -	<u>\$ —</u>	<u>\$ 2,537,000</u>

The Company may elect to pay dividends out of categories (a) and (b). Such dividends are not required to be included in the shareholder's income but reduce the adjusted cost base of his investment for Canadian tax purposes.

With the enactment of recent amendments to the Income Tax Act (Canada), tax-paid undistributed surplus on hand and 1971 capital surplus on hand will disappear on December 31, 1978. Accordingly, the Company will not be able to pay tax-deferred dividends out of those categories after that date.

- (iv) Gains realized on investments sold or redeemed during the year include taxable capital gains accrued since December 31, 1971 which have been partly offset for income tax purposes by expenses of \$62,000 charged in the statement of income. In accordance with the accounting recommendations of the Canadian Institute of Chartered Accountants, income taxes of \$30,000 otherwise payable on the gains should have been charged to retained earnings with a corresponding increase in net income for the year. This practice has not been followed since it would give an unfair presentation of the net income for the year.
5. Anti-Inflation Programme:
The Company is subject to dividend restrictions imposed by the Federal Government in the Anti-Inflation Act effective October 14, 1975. Dividends paid since this date have been in compliance with the controls. These restrictions are due to expire on October 13, 1978.

THIRD CANADIAN GENERAL INVESTMENT TRUST LIMITED

Portfolio of Investments

DECEMBER 31, 1977

	Class	No. of Shares		Class	No. of Shares
Alcan Aluminium Ltd. - -	Common	5,000	Massey-Ferguson Limited -	Common	20,000
The Algoma Steel Corp. Ltd. -	Common	20,000	Moore Corporation Limited	Common	40,000
Argus Corporation Ltd. - -	'C' Prefd.	120,000	*National Mine Service Company - - -	Common	5,000
Bank of Montreal - - - -	Common	3,000	The Ravelston Corp. Limited	Common	5,270
Bank of Nova Scotia - - -	Common	7,000	The Ravelston Corp. Limited	Prefd.	63,937
C.G.I. and Third Venture Capital Limited - - - -	Common	10,000	Rio Algom Ltd. - - - -	Common	15,000
C.G.I. and Third Venture Capital Limited - - - -	Pref.	650	Royal Bank of Canada - -	Common	5,000
Canada Trustco Mortgage Company - - -	'A' Common	68,000	Scott's Restaurants Co. Ltd. -	Common	10,000
Canadian General Electric Co. Ltd. - - - -	Common	4,000	The Seagram Co. Ltd. - -	Common	40,000
Canadian General Investments Ltd. - - - -	Common	1,248,464	**Shared Medical Systems - -	Common	30,000
Canadian Tire Corp. Ltd. - -	Common	5,000	Shell Canada 'A' - - - -	Common	9,000
Canadian Tire Corp. Ltd. - -	'A'	500	Southam Press Ltd. - - -	'A' Common	4,000
Canvil Ltd. - - - - -	Common	5,916	The Steel Co. of Canada Ltd. 'A' Common		12,000
Cominco Limited - - - -	Common	10,000	D.A. Stuart Oil Co. Ltd. - -	Common	700
Dominion Foundries & Steel Ltd. - - - - -	'A' Common	25,000	The Toronto-Dominion Bank	Common	5,600
Extendicare Ltd. - - - -	Common	20,000	†Trimac Limited - - - -	Warrants	15,000
Glendale Corporation - -	Common	10,100	Trizec Corporation Ltd. - -	Common	15,000
*Halliburton Company - -	Common	3,000			
Hudson's Bay Oil & Gas Co. Ltd. - - - -	Common	2,000			
Inco Ltd. - - - - -	'A' Common	7,500			
**Intel Corporation - - - -	Common	2,000			
Interprovincial Pipe Line Limited - - - -	'A' Common	14,000			
London Life Insurance Co. -	Common	465			
MacMillan Bloedel Ltd. - -	Common	10,000			

Summary of Changes in Portfolio in 1977

Additions to Portfolio	No. of Shares
C.G.I. and Third Venture Capital Limited Pref. - - - - -	150
Canvil Ltd. - - - - -	34
Intel Corporation - - - - -	2,000
National Mine Service Company - - - -	5,000
Rio Algom Ltd. - - - - -	3,000
Shared Medical Systems - - - - -	30,000
Trimac Limited—Warrants - - - - -	15,000
Deletions from Portfolio	
Kenting Limited - - - - -	15,000
London Life Insurance Co. - - - - -	635
The Ravelston Corp. Limited Prefd. - - -	1,685

*American Corporation listed on the New York Stock Exchange

**Traded over the counter New York

†Received from Kenting Ltd.

